RENTAL PROJECTS

PARAMETERS FOR TRANSACTION TERMS[1]
CITY OF SAN DIEGO AFFORDABLE HOUSING COLLABORATIVE

Issue/Term	Possible Target/Range
A. Development Costs	
1. Acquisition Costs	Purchase price of property not to exceed appraised value, subject to review and approval by Agency
2. Labor Costs	Assume payment of prevailing wages for tax credit projects (2004 forward)
3. Commercial Components	Development costs attributed to commercial components of mixed-use projects should be funded by equity or other non-NOFA sources.
B. Developer Fee (Tax Credit Projects)	
1. Developer Fee	Maximum fee permitted by TCAC that can be included in eligible basis
2. Developer Fee Deferral	20%-50% of Developer Fee; First draw on cash flow; subject to repayment with interest within 10 years from date in service
C. Developer Fee (Non-Tax Credit Projects)	
1. Developer Fee/Overhead Fee	To be determined on a case-by-case basis (example 3%-4% of direct costs)
2. Developer Profit	To be determined on a case-by-case basis

[1] General parameters; specific terms to be determined for individual projects.

D. Project Cash Flow

1.	Rent Increases	2.5% annually
2.	Operating Expense Increases	3.5% annually (not including taxes and replacement reserves)
3.	Property Tax Increases	2.0% annually. Payment of a Payment In-Lieu of Taxes (PILOT) fee to be considered on a case-by-case basis
4.	Vacancy rates	Not less than vacancy rate identified in appraisal, or residential @ 5.0%; commercial varied by location
5.	Operating Expenses	Minimum – TCAC standard; Maximum – industry standard. Industry standard to be determined based on data from third party sources such as the Institute of Real Estate Management (IREM). Includes maximum Management Fee TBD (example: $30/unit/month)
6.	Limited Partner Asset Management Fee	Paid during years 1-15 from project cash flow prior to payment of deferred developer fee or distribution of residual receipts; amount and escalation rate to be negotiated.
7.	General Partner Asset Management Fee	Paid during years 1-55 from project cash flow prior to payment of deferred developer fee or distribution of residual receipts; amount and escalation rate to be negotiated.
8.	Replacement Reserves	Rehabilitation @ $300/unit; New construction @ $200/unit

9. Operating Reserves	Not customary; evaluated on a case-by-case basis.
10. SDHC Monitoring Fee	Set up @ $500 1-40 units/beds @ $65/unit 41-80 units/beds @ $55/unit 81+ units/beds @ $45/unit Subject to annual increase based on CPI
11. Service Amenities	Case-by-case consideration
12. Debt Service Ratio	Minimum of 1.10 Maximum @ industry standard

E. Agency Loan Terms

1. Interest Rate	Applicable Federal Rate depending on sources of funds If not applicable, then 3.0%, simple interest when developer has ability to repay Agency loan, 0% if proposed use/operation has no income source for repayment.
2. Term	55 years
3. Repayment of Agency Loan	Years 1-30 - Agency/Developer 50%/50% split of residual receipts Years 31-55 - Agency/Developer 80%/20% split of residual receipts

F. Land Disposition (in cases where the Agency owns land)	Preference for ground leases. Terms to be negotiated.

RENTAL PROJECTS

RECOMMENDED POLICY GUIDELINES
CITY OF SAN DIEGO AFFORDABLE HOUSING COLLBORATIVE

A. Housing Type Priorities

1. How should priority housing types be implemented?

NOFA Priorities:	
Very Low	1. Small families 2. Large families 3. Individuals, seniors, special purpose
Low Income	1. Small families 2. Large families 3. Individuals & Seniors
Moderate	1. Homeownership for families 2. Rentals for large families

Recommendation: Cap amount spent toward senior housing on an annual basis.

2. How should an annual cap on senior housing expenditures be determined?

Recommendation: Based on provisions set-forth by California Health and Safety Code Section 33334.4 (Section 33334.4).[2] limiting the maximum percentage that a redevelopment agency can allocate to senior housing to the percentage of residents within the City that are 65 years of age and over.

City of San Diego Senior Test:		
Under 65 Year Old	1,095,392	89.5%
65 Years and Older	128,008	10.5%
Source: U.S. Census, Census 2000		

Note: An analysis of how the Agency will fulfill the requirements imposed by Section 33334.4 needs to be conducted by the Agency.

[2] Reflects modifications to redevelopment agencies' various affordable housing obligations imposed by AB 637 legislation, which became effective January 1, 2002; and SB 701, which clarified the terms of AB 637, adopted in September 2002.

3. What affordability levels should be targeted, other than required by funding sources?

NOFA Priorities:	
Very Low	1,200 units (55% of Goal)
Low Income	655 units (30% of Goal)
Moderate	330 units (15% of Goal)

Recommendation: Establish annual cap for Moderate units and possibly Low Income units guided by provisions set forth by Section 33334.4. As such, set-aside revenues would be expended based on the proportion of unmet need, as identified in the City's most recent Housing Element.

Note: An analysis of how the Agency will fulfill the requirements imposed by Section 33334.4 needs to be conducted by the Agency.

4. What affordability levels should be targeted, relative to market rents?

Recommendation: For both tax credit and non-tax credit projects, at least 10% below market rents for the same unit types in comparable rental properties.

B. Leveraging Funds

1. What external financing sources should each proposal consider?

Recommendation: All projects should seek to leverage all available funding sources.

For affordable rental projects, developers should attempt to use the following funding sources (in order of priority)

- 9% LIHTCs and AHP
- Tax-exempt bond w/ 4% LIHTCs , MHP and AHP
- Tax-exempt bond w/4% LIHTC, AHP, no MHP
- Layer with other sources

In those instances where a funding program with a higher priority is not used, developer should demonstrate their rationale for not using the specified funding program.

Note: case-by-case consideration should be given to the priority of each project in relation to timing and competitiveness of each 9% LIHTC round.

C. Subsidy Level

1. Should there be a maximum subsidy per unit and/or per bedroom by product type?

   Recommendation: The Committee will not consider establishing maximum per unit and/or per bedroom subsidies.

D. Recommended Additional Submittals Required by each Developer

- Appraisal to support site acquisition
- Market Study (TCAC/CDLAC submission)
- TCAC/CDLAC Self-Scoring Sheet
- Description of services amenities provided to tenants (i.e. after school programs, educational classes, senior counseling services, etc.)
- Developer Resume

E. Developer/Development Team Qualifications - Criteria for Evaluation of Development Teams:

The following is a guide to the criteria that will be used in evaluating development teams:

- Development experience in providing affordable housing for low- and moderate- income households of comparable size, scale, and complexity. This will include the physical and financial size and scope of comparable projects.

- Demonstrated ability to provide project funding (debt and equity), including current relationships with major lenders and various financial institutions and past funding experiences.

- Demonstrated ability to complete affordable housing projects on time and on budget.

- Qualifications of the development team and the key individuals proposed for involvement in the development.

- Demonstrated experience in neighborhood improvement and elimination of blight conditions through new construction and/or rehabilitation.

- Experience in working with the public sector in public/private real estate development projects.